



## Alaska State Pension Investment Board

P.O. Box 110405  
Juneau, Alaska 99811-0405  
(907) 465-3749

### Message from the Chair

I am pleased to present the 2004 Annual Report of Investments for the period ending June 30, 2004 to you, the participants and beneficiaries of the TRS retirement trust fund.

The Alaska State Pension Investment Board is responsible for the investment of the money paid into the state public employees', teachers', judicial, and military retirement systems. In addition, ASPIB selects the investment managers for the Supplemental Benefit System and Deferred Compensation.

Trustees of ASPIB owe a fiduciary duty to the participants in the retirement systems and by law all investment decisions made by ASPIB must comply with the prudent investor rule. ASPIB consists of two elected members from the Public Employees' Retirement System (PERS), two elected members from the Teachers' Retirement System (TRS), three members appointed by the Governor, and the Commissioner of the Department of Revenue (DOR).

The trustees work hard to achieve an asset mix that provides the highest expected return for a given level of risk. Working closely with our dedicated staff in the Department of Revenue and our investment advisors and consultants, we established an investment mix that we believe will provide enhanced returns while maintaining a prudent level of risk. This asset allocation is reviewed annually and is designed to provide competitive returns at a reasonable level of risk. It is critical to remember that the System's assets are invested for the long-term. Our objective is to produce a very competitive long-term return that meets the System's funding requirements at an acceptable risk level. Therefore, we are encouraged to observe that the 12  $\frac{3}{4}$  year cumulative annualized return (the longest period available) of 8.73% compares favorably to the System's actuarial earnings assumption of 8.25%.

The Investment Report on the following pages provides more detail regarding the investment results of each asset category, as well as an economic overview of the market conditions existing during the past fiscal year.

ASPIB represents over 60,000 participants and beneficiaries. The trustees strongly believe that members should be kept well informed about the performance of the retirement funds and about what we as fiduciaries are doing on their behalf. To this end, we are proud of the ASPIB web site, which can be accessed at [www.revenue.state.ak.us/treasury/aspiib/index.htm](http://www.revenue.state.ak.us/treasury/aspiib/index.htm). We continue to encourage member participation at our meetings, and welcome letters and comments.

On behalf of all the trustees, thank you for giving us the opportunity to serve as fiduciaries.

Sincerely,

A handwritten signature in black ink, appearing to read "Gail Schubert".

Gail Schubert, Chair

## ALASKA STATE PENSION INVESTMENT BOARD (as of June 30, 2004)



### **Gail R. Schubert, Chair**

Appointed by the Governor

Gail R. Schubert, Chair, was first appointed to the board by Governor Hickel, then reappointed by Governor Knowles and Governor Murkowski. She is currently Executive Vice President and General Counsel to Bering Straits Native Corporation, President of its two 8(a) subsidiaries, and of counsel to the law firm of Foster, Pepper Rubini & Reeves LLC in Anchorage. From 2002 to 2003, Mrs. Schubert was General Counsel to Southcentral Foundation, and from 1995 to 2002, she was a member of Foster Pepper. From 1992 to 1995, Mrs. Schubert practiced law at Birch, Horton, Bittner & Cherot, and from 1982 to 1992, Mrs. Schubert practiced law in New York City at the firms of Rogers & Wells; Fried and Frank, Harris, Shriver & Jacobson; and at the Federal Reserve Bank of New York. Mrs. Schubert attended the School of Law at Cornell University; the Johnson School of Management (MBA) at Cornell; and Stanford University. She serves as Chair of the Boards of the Alaska Native Heritage Center and Akeela Treatment Services, Inc., and on the boards of the Bering Straits Native Corporation, the Alaska Federation of Natives, Khoanic Broadcast Corporation, the Alaska Native Justice Center, and is a member of the Anchorage Downtown Rotary. Mrs. Schubert's term expires December 31, 2007.



### **Wilson L. Condon, Vice Chair**

PERS Representative

Wilson L. Condon, Vice Chair, was elected by the Public Employees' Retirement System. He is currently Chief of the Oil, Gas & Mining Section at the Department of Law. Previously, Mr. Condon was Commissioner of the Alaska Department of Revenue from 1995-2002. Prior to serving as commissioner, he was a partner in a private law firm from 1983-1995 and acted as lead counsel for the state in a series of oil and gas royalty and tax cases. He served as Attorney General from 1980 - 1982 and as Deputy Attorney General from 1975 - 1980. He holds an A.B. Political Science degree and a J.D. degree from Stanford University. Mr. Condon's term expires December 31, 2006.



### **James "Pat" Wellington**

PERS Representative

James "Pat" Wellington, Secretary, was elected by the Public Employees' Retirement System. Mr. Wellington was born in Ketchikan, Alaska and graduated from Douglas High School. He served two years in the U.S. Army and started his law enforcement career with the Seward Police Department in late 1955. He served as Deputy U.S. Marshal, Alaska State Troopers, Chief of Police of Juneau, Deputy Commissioner and Commissioner of the Department of Public Safety, and retired in 1977 as Director of the Alaska State Troopers. Mr. Wellington is also the Chairman of the Public Employees' Retirement Board. He resides in Anchorage. Mr. Wellington's term expires December 31, 2004.



### **William Corbus**

Statutory Representative

William Corbus was appointed Commissioner of the Department of Revenue in December 2002. He oversees an agency that has very diverse responsibilities, including tax collection, investing state funds, child support enforcement and distributing permanent fund dividends. Bill Corbus is the retired president of Alaska Electric Light and Power, the electric company that serves the Juneau area, where he has lived since 1970. He served as a Lt. J.G. in the U.S. Naval Reserve, including one year as an advisor to the Vietnamese Navy in 1962-63. Mr. Corbus then worked for Stone & Webster in New York City providing public utility security analysis, financial planning, and accounting. The Commissioner sits on nine boards, including the Board of Trustees of the Alaska Permanent Fund Corporation. Mr. Corbus holds a B.S. in industrial engineering from Stanford University and an MBA from the Amos Tuck Graduate School of Business Administration at Dartmouth College.



### **Merritt C. Olson, Secretary**

TRS Representative

Merritt C. Olson was elected in 1992 to serve as a trustee on the newly-created ASPIB and reelected for three more terms. Mr. Olson served previously as a trustee for the Teachers' Retirement Systems Board. He also served as president of NEA-Alaska/Retired and sat on the national NEA-Retired Advisory Council for six years. He earned the doctoral degree in psychology from Rutgers University and was a Fulbright scholar and lecturer at the University of Ibadan in Nigeria. Dr. Olson taught mathematics in Anchorage secondary schools and served as an adjunct professor of psychology at the University of Alaska Anchorage and at Alaska Methodist University. His term expires December 31, 2007.



### **Martin Pihl**

Appointed by the Governor

Martin Pihl was appointed to the board in 2003 by Governor Murkowski. Mr. Pihl came to Alaska in 1962 to work for Ketchikan Pulp Company, becoming President and General Manager in 1987 until his retirement in 1994. He then served as Acting Executive Director for the Alaska Permanent Fund Corporation in 1994-1995. Mr. Pihl serves as a director of National Bank of Alaska and on Wells Fargo Bank's Alaska Statewide Advisory Board, as Chairman of the Board of Governors of the Alaska Timber Insurance Exchange, and as a regent for Pacific Lutheran University. He is also a member of several advisory boards including Holland America-Westmark-Ketchikan Advisory Board, Ketchikan Ports and Harbors Advisory Board, and Alaska Airlines Southeast Alaska Community Advisory Board. Mr. Pihl holds a BA in Accounting from the University of Washington and has been a CPA since 1958. His term expires December 31, 2006.



### **Jeffrey E. Sinz**

Appointed by the Governor

Jeffrey E. Sinz was appointed to the board in 1998 by Governor Knowles. Mr. Sinz is currently employed as Chief Fiscal Officer for the Municipality of Anchorage. He has over twenty years experience in public sector financial management and analysis, including fourteen years with the Municipality of Anchorage. Prior to accepting his current position in Anchorage, he served as Director of Finance for the Kenai Peninsula Borough. Mr. Sinz has also held positions with the Alaska Railroad Corporation and prior to moving to Alaska in 1981, with a Wisconsin public school district. He also serves as vice president of the Alaska Municipal League Investment Pool Board of Directors and is on the Board of Directors for the Anchorage Parking Authority. He has an MBA in Management from the University of Alaska Anchorage and a BBA in Finance from the University of Wisconsin Eau Claire. His term expires December 31, 2004.



### **Dorothy Wells**

TRS Representative

Dorothy Wells was elected by the Teachers' Retirement System. A resident of Alaska for 37 years, Ms. Wells is a retired teacher who taught business education at Eielson Air Force Base, and business classes for the University of Alaska night school program at Eielson. She obtained her B.S. degree from the University of Minnesota/Minneapolis and did graduate work both there and at the University of Alaska/Fairbanks. Mrs. Wells served on the Teachers' Retirement Board for 20 years, and is active with NEA-Alaska/Retired. Her term expires December 31, 2005.

<b>Department of Revenue Treasury Division Staff</b>		
<b>Commissioner</b> William Corbus  <b>Deputy Commissioner</b> Tomas Boutin	<b>Chief Investment Officer</b> Gary Bader  <b>Comptroller</b> Betty Martin, CPA  <b>ASPIB Liaison Officer</b> Judy Hall	<b>Investment Officers</b> Bob G. Mitchell, Marketable Debt Stephen R. Sikes Philip Bartlett Michael T. Oliver, CFA, Alternatives Zach Hanna Victor Djajalie Yuri Morgan Clay Cummins  <b>Cash Management</b> Michelle M. Prebula, MBA, CPA, CCM
<b>External Money Managers and Consultants</b>		
<b>Investment Consultants</b> Callan Associates Inc. <i>San Francisco, CA</i> The Townsend Group <i>Denver, CO</i>  <b>Domestic Fixed Income</b> BlackRock Financial Management, Inc. <i>New York, NY</i>  <b>Domestic Equity Large Capitalization</b> Capital Guardian Trust Co. <i>Los Angeles, CA</i> Dresdner RCM Global Investors <i>San Francisco, CA</i> McKinley Capital Management, Inc. <i>Anchorage, AK</i> Tukman Capital Management, Inc. <i>San Francisco, CA</i>  <b>Domestic Equity Small Capitalization</b> Capital Guardian Trust Co. <i>San Francisco, CA</i> John McStay Investment Counsel <i>Dallas, TX</i> Trust Company of the West <i>New York, NY</i> Turner Investment Partners, Inc. <i>Berwyn, PA</i>	<b>Domestic Equity Index Fund</b> State Street Global Advisors <i>Boston, MA</i>  <b>Domestic Enhanced Index</b> Invesco Capital Management, Inc. <i>New York, NY</i>  <b>Emerging Markets</b> Capital Guardian Trust Co. <i>Los Angeles, CA</i> J.P. Morgan Fleming Asset Management, Inc. <i>New York, NY</i>  <b>Global Equity</b> Lazard Freres Asset Management <i>New York, NY</i>  <b>International Equity—EAFE</b> Bank of Ireland Asset Management (US) Ltd. <i>Santa Monica, CA</i> Brandes Investment Partners, L.P. <i>San Diego, CA</i> Capital Guardian Trust Co. <i>Los Angeles, CA</i>	

## External Money Managers and Consultants (con't)

### International Fixed Income

Delaware International Advisers Ltd.

*London, England*

### Private Equity

Abbott Capital Management, L.P.

*New York, NY*

Pathway Capital Management, LLC

*Irvine, CA*

### Performance Measurement

Callan Associates Inc.

*Denver, CO*

### Real Estate Management—Commingled Funds

Heitman Capital Management

*Chicago, IL*

J.P. Morgan Investment Management Inc.

*New York, NY*

Sentinel Real Estate Corporation

*New York, NY*

UBS Realty Investors, LLC

*Hartford, CT*

### Real Estate—Core Separate Accounts

Cornerstone Real Estate Advisors, Inc.

*Hartford, CT*

LaSalle Investment Management

*Chicago, IL*

Sentinel Real Estate Corporation

*New York, NY*

UBS Realty Investors, LLC

*San Francisco, CA*

### Real Estate—Value Added Separate Accounts

Invesco Realty Advisors

*Dallas, TX*

Lowe Enterprises Investment Management Inc.

*Los Angeles, CA*

### Supplemental Benefits System

Barclays Global Investors

*San Francisco, CA*

Capital Guardian Trust Company

*Los Angeles, CA*

Citizens Funds

*Portsmouth, NH*

State Street Global Advisors

*Boston, MA*

T. Rowe Price Investment Services

*Baltimore, MD*

### Deferred Compensation

Barclays Global Investors

*San Francisco, CA*

Capital Guardian Trust Company

*Los Angeles, CA*

T. Rowe Price Investment Services

*Baltimore, MD & Glen Allen, VA*

### Global Master Custodian

State Street Bank & Trust Co.

*Boston, MA*

### Investment Advisory Council

William Jennings

*Colorado Springs, CO*

Jerrold Mitchell

*Wayland, MA*

Timothy O'Brien

*Denver, CO*

### Independent Auditors

KPMG LLP

*Anchorage, AK*

### Legal Counsel

Wohlforth, Vassar, Johnson & Brecht

*Anchorage, AK*



## Teachers' Retirement System Investment Report

The Investment Report was prepared by the State of Alaska, Department of Revenue, Treasury Division.

The basis of presentation for the data reported in the investment section is in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

### INVESTMENTS

The State of Alaska Teachers' Retirement System's investment goals are the long term return and sustainability of the pension funds under management. Near-term market fluctuations are integrated into the overall outlook of the fund guidelines. Annually, the Alaska State Pension Investment Board (ASPIB) sets its asset allocation strategy in order to reflect changes in the marketplace while still retaining an optimal risk/return level within the set constraints and objectives of the Investment Board.

During the 2004 Fiscal Year<sup>1</sup>, ASPIB's asset allocation was composed of 40.4% domestic equities, 17.8% international equities, 27.2% domestic fixed income, 3.6% international fixed income, 7.7% real estate and 3.3% alternative investments.

For the 2004 Fiscal Year, TRS investments generated a 15.09% rate of return. The TRS annualized rate of return was a positive 3.29% over the last five years. The annualized rate of return over the last twelve and three-quarter years has been 8.73%.

### INVESTMENT OVERVIEW

The diversification of the TRS investment portfolio continued to protect the overall returns from the bear markets which began in the spring of 2000. For the Fiscal Year, the U.S. equity portfolio gained 20.06% and the international equity portfolio gained

31.7% (as compared to the 2003 Fiscal Year losses of -0.97% and -5.83% respectively). The U.S fixed-income market generated a 0.61% return down from 10.69% the previous year.

ASPIB continued the systematic increase of TRS investments in real estate and private equity. The real estate portfolio earned 11.57% for the 2004 Fiscal Year versus 8.97% in Fiscal Year 2003. The TRS investments in private equities gained 21.42%, as compared to a 14.75% loss in 2003. Over the past five years, TRS real estate investments have earned an average of 9.26% per year.

### DOMESTIC ECONOMY

The economy grew at a healthy pace throughout Fiscal 2004. Growth was strongest in the first half of the year and then moderated in the June quarter. Initial estimates of GDP growth in the June quarter came in at 3.0%, down significantly from the unsustainable 7.4% pace of the September 2003 quarter. Nonetheless, many expect full calendar 2004 growth to approximate 4.5%. This is up from the 3.1% pace observed in calendar 2003.

The economy's continued recovery has raised concerns regarding the possible re-emergence of inflation. After remaining at very low levels for many quarters, inflation, as measured by the CPI, accelerated in the June quarter to a 3.3% year over year pace. Commodities, particularly oil prices, figured importantly in this rise. The Producers Price Index (PPI) experienced a year over year change of 6.6% in the June quarter.

As widely anticipated, the Federal Reserve raised short-term rates to 1.5% during the last half of the fiscal year. By any standard however, most observers agree that short-term rates remain at very low levels and are likely to increase further over the next 6 to 18 months. Importantly, they believe that modest additional rate hikes will not halt economic growth.

<sup>1</sup> July 1<sup>st</sup>, 2003 – June 30<sup>th</sup>, 2004

## Teachers' Retirement System Investment Report

Despite uncertainty regarding the implications of the upcoming elections, the outlook for energy prices and the challenges of Iraq, the economy continues to post solid gains. Employment growth, while slower than many had anticipated, has been solid. Manufacturing capacity utilization has improved from 72.6% last year to 77.2% in the June quarter. Historically, capital spending has tended to accelerate when the utilization rate exceeds 80%. Such spending is a key ingredient to the economy's continued growth.

Investors are sensitive to short-term news developments and financial markets will be affected accordingly. Fortunately, underlying economic fundamentals point toward continued growth in employment and corporate profits. Interest rates, while higher than a year ago, remain low and there appears to be ample liquidity to fund continuation of the economic expansion.

### EQUITIES

The Total Domestic Equity Pool is diversified across large cap value, large cap growth, core, small cap value and small cap growth equity styles so as to gain broad market exposure. For the 2004 Fiscal Year, the fund posted a net return of 20.06%. This was less than the target return of 21.43%. The annualized domestic equity return for the five year period improved to a negative 0.85% from a negative 1.43% in the 2003 Fiscal Year.

Within the International Equity pool the Non-U.S. Equity Style managers invest their assets only in non-U.S. equity securities. This style group excludes regional and index funds. The International Equity pool net return was 31.70% which was less than the target return of 32.37%. The international equity return for the five year period improved to 2.81% from 0.06% in Fiscal Year 2003.

### FIXED INCOME MARKET

The domestic fixed-income portfolio represented approximately 27.26% of the total assets of TRS as of June 30, 2004. The fixed-income portfolio uses a core-oriented strategy investing in U.S. Treasury securities, U.S. government agency securities, investment-grade corporate bonds, and mortgage-backed securities. The benchmark for the TRS bond portfolio is the Lehman Brothers Aggregate Bond Index.

Over the 2004 Fiscal Year, the TRS domestic bond portfolio gained 0.61%, down from 10.69% the year before. The Lehman Brothers Aggregate Bond Index returned 0.32%, versus 10.40% during 2003 Fiscal Year.

The international fixed-income portfolio, which represented about 3.63% of the total assets of TRS, returned 7.52% over the 2004 Fiscal Year, nearly equivalent to the 7.60% posted by the Salomon Brothers Non U.S. Government Index.

### REAL ESTATE

At the end of the 2004 Fiscal Year, TRS had 7.68% of its portfolio invested in real estate. At fiscal year end, the real estate portfolio totaled \$300 million. The total return for real estate, net of fees, was 11.57% compared to 8.97% for the 2003 Fiscal Year. The five year total return was 9.26%.

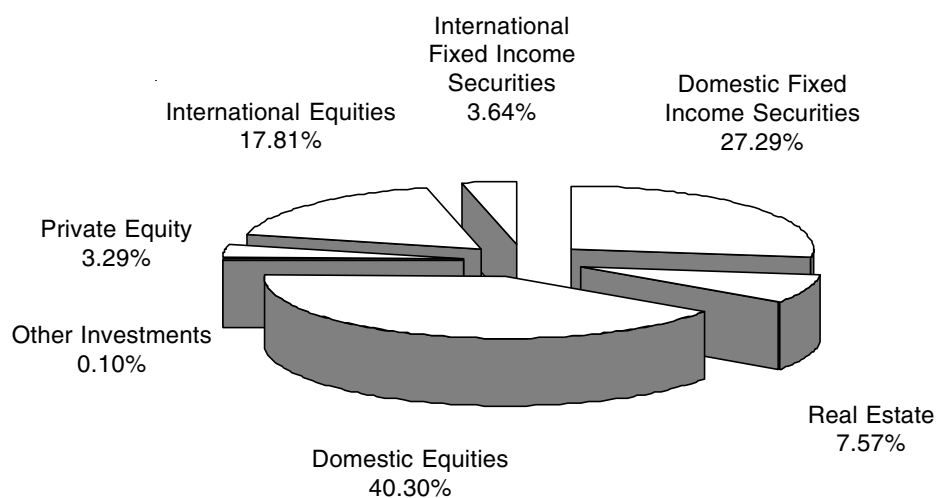
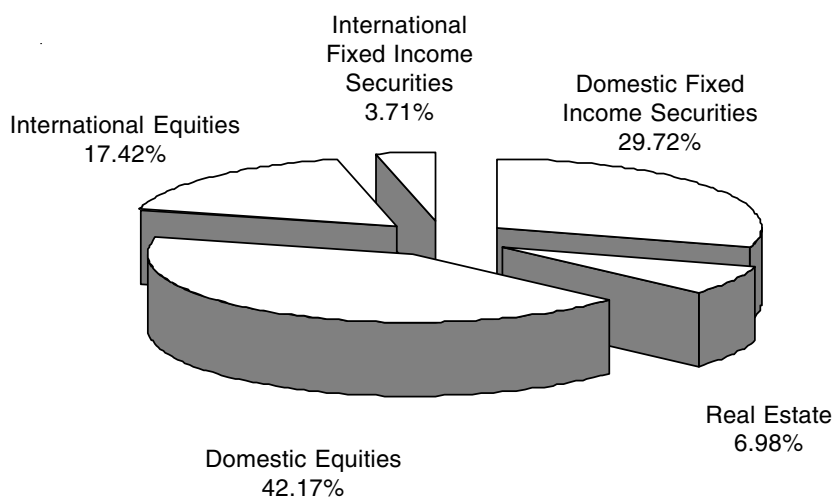
ASPIB's real estate portfolio is made up of 31% apartment, 34% office, 24% industrial, 11% retail and 1% hotel.

### PRIVATE EQUITY

During the 2004 Fiscal Year the Private Equity component of the TRS portfolio showed a net return of 21.42% with a five year annualized return of 5.30%.

<b>Teachers' Retirement System Schedule of Investment Results Fiscal Years Ended June 30</b>							
	2000	2001	2002	2003	2004	Annualized	
						3 Year	5 Year
<b>Total Fund</b>							
TRs	10.15%	(5.35%)	(5.49%)	3.68%	15.09%	4.09%	3.29%
<i>Actuarial Earnings Rate</i>	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
<b>U.S. Common Stock Returns</b>							
TRs Domestic Equities	10.41%	(12.20%)	(16.85%)	(0.97%)	20.06%	(0.38%)	(0.85%)
<i>S&amp;P 500</i>	7.24%	(14.83%)	(17.99%)	0.25%	19.11%	(0.70%)	(2.20%)
<b>International Stock Returns</b>							
TRs International Equities	20.59%	(16.92%)	(8.24%)	(5.11%)	31.70%	4.67%	2.81%
<i>Morgan Stanley Capital International EAFE</i>	18.11%	(23.83%)	(9.49%)	(6.46%)	32.37%	3.87%	0.06%
<b>Domestic Fixed Income</b>							
TRs	4.56%	11.93%	8.16%	10.70%	0.61%	6.40%	7.11%
<i>Lehman Brothers Aggregate Index*</i>	1.69%	11.22%	8.63%	10.40%	0.32%	6.36%	6.96%
<b>International Fixed Income</b>							
TRs	(3.27%)	(5.68%)	22.56%	24.48%	7.52%	17.93%	8.40%
<i>Salomon Non-U.S. Government</i>	2.42%	(7.43%)	15.73%	17.90%	7.60%	13.66%	6.84%
<b>Real Estate Equity</b>							
TRs	8.43%	11.37%	5.24%	8.97%	11.55%	8.61%	9.29%
<i>NCREIF</i>	11.61%	11.15%	5.60%	7.64%	10.83%	7.97%	9.40%
<p>S&amp;P 500 = Standard &amp; Poor's Domestic Equity Stock Index  EAFE = Europe, Australia, and Far East Stock Index  NCREIF = National Council of Real Estate Investment Fiduciaries Index</p> <p>The calculation of investment results were prepared using a time-weighted rate of return based on the market rate of return in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.</p> <p><i>*Lehman Brothers Government/Corporate Index prior to 3/31/2000.</i></p>							



**Teachers' Retirement System Trust Fund  
Actual Asset Allocation****June 30, 2004****June 30, 2003**

**Alaska State Pension Investment Board  
Top Ten Holdings by Asset Type  
June 30, 2004**

Invested assets under the fiduciary responsibility of the Alaska State Pension Investment Board (ASPIB) have been commingled in various investment pools to minimize costs and maximize returns. Treasury Division has created nine different mutual fund-like pools to accomplish the investment asset allocation policies of the ASPIB. Using investment pools increases investment efficiency in three ways. First, combining individual funds' cash inflows and outflows to offset each other reduces the amount of cash on hand needed to support daily operations. Treasury can thus increase the return on funds not needed for daily cash operations. Second, pooling investments significantly reduces accounting, budgeting and administrative costs. Finally, the ASPIB can achieve economies of scale by making available investment options that could not otherwise be practically provided for smaller retirement funds. Following are the ten largest bond holdings and the ten largest equity holdings by market value.

	Rank	Fair Value	Par Values/ Shares	Security	Coupon	Due	Credit Rating
<b>Bonds</b>	1	\$199,205,372	199,300,000	Federal National Mtg. Assn.	0.000%	7/14/2004	A-1+
	2	97,305,155	97,275,000	Federal National Mtg. Assn.	5.000%	2/1/2018	AAA
	3	94,428,924	94,745,000	U.S. Treasury Note	2.500%	5/31/2006	AAA
	4	82,453,997	81,600,000	U.S. Treasury Note	4.800%	5/15/2014	AAA
	5	81,897,299	84,503,863	Federal National Mtg. Assn.	5.000%	3/1/2031	AAA
	6	57,212,500	57,500,000	Federal National Mtg. Assn.	5.500%	3/1/2033	AAA
	7	48,507,152	39,348,000	U.S. Treasury Bond	7.500%	11/15/2016	AAA
	8	40,249,475	39,854,872	Master Alternative Loans Trust	6.000%	2/25/2034	AAA
	9	33,135,178	34,101,991	Government National Mtg. Assn.	5.000%	9/15/2033	AAA
	10	31,987,747	32,205,000	U.S. Treasury Note	2.300%	4/30/2006	AAA
<b>Equities</b>	1	\$118,438,200	3,655,500	General Electric Co.			
	2	114,187,571	3,331,026	Pfizer Inc.			
	3	94,662,691	3,314,520	Microsoft Corporation			
	4	87,518,288	1,658,800	Wal Mart Stores, Inc.			
	5	83,396,460	1,169,984	American International Group, Inc.			
	6	82,822,785	1,864,958	Exxon Mobil Corporation			
	7	80,469,787	1,355,852	Emerging Markets Growth Fund			
	8	78,488,931	1,687,934	Citigroup, Inc.			
	9	72,114,465	5,463,217	Mgt Emerging Markets Equity Fund			
	10	71,065,925	124,760	Wells Fargo Company			

Additional investment information on the various pools and investments may be obtained from the Department of Revenue, Treasury Division, P.O. Box 110405, Juneau, Alaska 99811-0405.

**Teachers' Retirement System  
Schedule of Investment Management Fees  
Year Ended June 30, 2004**

	<b>Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004</b>	<b>Fees</b>
<b>External Management Fees</b>		
Domestic Fixed Income		
BlackRock Financial Management, Inc.	\$1,124,342,920	\$ 499,482
International Fixed Income		
Delaware International Advisers, Ltd.	441,865,513	212,105
Domestic Equity		
Capital Guardian Trust Co.	911,606,330	723,093
John McStay Investment Counsel	-	205,306
TCW Asset Management Company	276,694,373	598,693
State Street Global Advisors S&P 500 Index Fund	1,245,933,802	85,354
Invesco Capital Management, Inc.	629,918,856	271,527
Lazard Freres Asset Management	472,547,872	499,029
McKinley Capital Management, Inc.	258,953,686	291,164
Dresdner RCM Global Investors	445,419,327	413,270
Tukman Capital Management, Inc.	424,492,784	693,537
Turner Investment Partners	243,518,901	193,031
Total Domestic Equity	4,909,085,931	3,974,004
Private Equity		
Pathway Capital Management, LLC	44,018,420	147,040
Abbott Capital Management, L.P.	353,785,528	327,783
Total Private Equity	397,803,948	474,823
International Equity		
Bank of Ireland Asset Management Ltd.	376,911,016	423,374
Brandes Investment Partners, L.P.	760,967,591	865,483
Lazard Freres Asset Management	511,118,692	537,355
Capital Guardian Trust Co.	373,227,201	538,245
Total International Equity	2,022,224,500	2,364,457
Emerging Markets Equity		
J.P. Morgan Fleming Asset Management	72,114,465	203,921
Capital Guardian Trust Co.	80,469,787	169,096
Total Emerging Markets Equity	152,584,252	373,017
Total External Management Fees	\$9,047,907,064	7,897,888

**Teachers' Retirement System  
Schedule of Investment Management Fees (con't)  
Year Ended June 30, 2004**

	<b>Fair Value of Pooled Assets Under Management of all Retirement Funds in Pool as of June 30, 2004 (con't)</b>	<b>Fees (con't)</b>
<b>External Management Fees (con't)</b>		
Other Management Fees		
Custodian		
State Street Corporation		<u>375,809</u>
Investment Advisory		
Callan Associates Inc.		25,127
The Townsend Group		<u>48,736</u>
Total		<u>73,863</u>
Investment Performance Measurement		
Callan Associates Inc.		<u>64,675</u>
Total Other Management Fees		<u>514,347</u>
Total Management Fees		<u>\$ 8,412,235</u>

<b>Teachers' Retirement System Investment Summary Schedule June 30, 2004</b>					
	<b>Teachers' Asset Allocation Policy</b>	<b>Range</b>	<b>Market Value</b>	<b>% of Asset Class</b>	<b>% of Total Assets</b>
<b>Participation in Pools Owning Fixed Income Securities</b>					
Domestic					
Short-Term Fixed Income Pool			\$ 522,580	0.05%	0.01%
Retirement Fixed Income Pool			705,056,898	66.08%	18.04%
External Domestic Fixed Income Pool			<u>361,318,017</u>	<u>33.87%</u>	<u>9.24%</u>
Total Domestic Fixed Income	30%	27-33%	1,066,897,495	<u>100.00%</u>	27.29%
International					
International Fixed Income Pool	<u>3%</u>	<u>1-5%</u>	<u>142,128,648</u>	<u>100.00%</u>	<u>3.64%</u>
Total Fixed Income Securities	<u>33%</u>	<u>28-38%</u>	<u>1,209,026,143</u>		<u>30.93%</u>
<b>Participation in Pools Owning Domestic Equities</b>					
<b>Small cap<sup>(1)</sup> and Alternative Investments</b>					
Domestic Equity Pool			<u>309,543,397</u>	<u>19.65%</u>	<u>7.92%</u>
Total Small Cap Domestic Equities and Alternative Investments	6%	4-8%	<u>309,543,397</u>	<u>19.65%</u>	<u>7.92%</u>
<b>Large cap and Alternative Investments</b>					
Domestic Equity Pool-active			663,894,248	42.14%	16.98%
Domestic Equity Pool-passive			<u>602,006,319</u>	<u>38.21%</u>	<u>15.40%</u>
Total Large Cap Domestic Equities and Alternative Investments	<u>31%</u>	<u>28-34%</u>	<u>1,265,900,567</u>	<u>80.35%</u>	<u>32.38%</u>
Total Domestic Equities	<u>37%</u>	<u>32-42%</u>	<u>1,575,443,964</u>	<u>100.00%</u>	<u>40.30%</u>
<b>Participation in Pools Owning International Equities</b>					
International Equity Pool			642,588,831	92.33%	16.44%
Emerging Markets Equity Pool			<u>53,407,169</u>	<u>7.67%</u>	<u>1.37%</u>
Total International Equities	<u>15%</u>	<u>12-18%</u>	<u>695,996,000</u>	<u>100.00%</u>	<u>17.81%</u>
<b>Participation in Pools Owning Alternative Investments</b>					
Private Equity Pools	6%	3-9%	128,570,997	97.05%	3.29%
Other Investment Pools			<u>3,896,845</u>	<u>2.95%</u>	<u>0.10%</u>
Total Alternative Investments	<u>6%</u>	<u>3-9%</u>	<u>132,467,842</u>	<u>100.00%</u>	<u>3.39%</u>
<b>Participation in Real Estate</b>					
Mortgages, net of allowances			60,808	0.02%	0.00%
Real Estate Pool			<u>295,894,158</u>	<u>99.98%</u>	<u>7.57%</u>
Total Real Estate	<u>9%</u>	<u>6-12%</u>	<u>295,954,966</u>	<u>100.00%</u>	<u>7.57%</u>
Total Invested Assets	<u>100%</u>		<u>\$ 3,908,888,915</u>		<u>100.00%</u>
<sup>(1)</sup> Includes only securities held by those managers with small cap mandates. Does not include small cap holdings which may be held in other managers' portfolios.					

**Teachers' Retirement System  
Credit Risk of Investments  
Pension Trust Funds  
(Expressed in Thousands)  
June 30, 2004**

	Category			Fair Value
	1	2	3	
Marketable debt securities				
Domestic fixed income	\$ 1,066,375			1,066,375
International fixed income	142,129			142,129
Equity securities				
Domestic equities	1,575,444			1,575,444
International equities	642,589			642,589
	<u>\$ 3,426,537</u>	<u>-</u>	<u>-</u>	<u>3,426,537</u>
Not Categorized				
Emerging market equities				53,407
Private equities				128,571
Real estate equities				295,955
Other investments				<u>3,897</u>
Total investments not categorized				<u>481,830</u>
Total investments				<u><u>3,908,367</u></u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 requires disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the System's securities fails. Those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 — Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 — Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 — Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping securities as defined by GASB.

The System's investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the System's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools are considered to be Category 1 as defined by GASB Statement No. 3. Shares in the Emerging market equity, Private equity, Real estate equity, and Other investments pools are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.



**Alaska State Pension Investment Board  
Recaptured Commission Fees Received in FY 2004**

	<u>Domestic Equity</u>	<u>International Equity</u>	<u>Total</u>
PERS	\$ 483,304	209,986	693,290
TRS	232,767	100,155	332,922
Judicial	4,452	2,044	6,496
Military	<u>639</u>	<u>249</u>	<u>888</u>
Total	<u><u>\$ 721,162</u></u>	<u><u>312,434</u></u>	<u><u>1,033,596</u></u>

The Alaska State Pension Investment Board (ASPIB) entered into a commission recapture program in late June 1995 with three large block brokerage firms. A commission recapture program is a form of directed brokerage that allows the plan sponsor to “recapture” a portion of commission dollars paid to broker-dealer firms for executing trades. In June 1995, the large capitalization domestic equity managers were asked to participate in the program targeting 20% of their trading value. The equity managers were asked to consider best execution first and foremost, but encouraged to participate in the commission recapture program when possible. In July 1996, ASPIB raised the level of elective participation for the large capitalization domestic equity managers from 20% to 30% of total trading activity. At that time ASPIB also requested that small capitalization managers participate in the commission recapture program when the opportunity was available to them.

In January 1998, the ASPIB augmented its commission recapture program to include external managers that conduct international equity trades. As a result, a portion of the commission recapture payments received since January have resulted from international equity trades.

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